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ORIGINAL***Tucson Electric Power Company***

One South Church, Post Office Box 711
Tucson, Arizona 85702

April 15, 2010

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

Re: Tucson Electric Power Company's Cost Containment Report
Decision No. 71256, Docket Nos. E-01933A-05-0650, E-01933A-07-0402

Pursuant to Arizona Corporation Commission ("Commission") Decision No. 71256 (September 3, 2009), Tucson Electric Power Company hereby files its annual Cost Containment Report as required by Commission Decision No. 59594 (March 29, 1996).

If you have questions or comments please contact me at (520) 884-3680.

Best regards,

Jessica Bryne
Regulatory Services

Enclosures: Cost Containment Report

cc: Ernest Johnson
Steve Olea
Phil Dion

Arizona Corporation Commission
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Tucson Electric Power Company

Cost Containment Report

The following is a summary of Tucson Electric Power's ("TEP" or "Company") cost containment efforts and quantified savings for the year 2009. For a detailed table outlining TEP's total savings for 2009 of \$18.9 million, please refer to the attached Exhibit A.

Employee and Other Compensation Costs

To minimize the impact of economic conditions in the fall of 2008, TEP instituted company-wide hiring restrictions for 2009. The hiring restrictions saved TEP approximately \$4.9 million compared to budget. TEP also made changes to its pension retirement and death benefits plans, while eliminating the early retirement "Rule of 85" plan for employees hired after June 1, 2009. These changes resulted in an additional savings of \$600,000, for a total savings of \$5.5 million.

Contract Renegotiation

Beginning in 2008, TEP negotiated concessions with outside legal counsel regarding hourly rates, saving approximately \$100,000. In addition, the Company renegotiated a contract for Officer and Director insurance premiums, which saved approximately \$200,000.

Generation Expenses

TEP's coal-fired generation plants underwent various changes in 2009, saving approximately \$5.4 million. Some of those changes produced one-time savings, while others created permanent, ongoing savings. The Company created a one-time savings of \$1.2 million due to an overhaul schedule optimization plan for the Sundt Unit 2 facility, while ongoing savings were achieved at TEP's Springerville Generating Station ("SGS") due to the addition of Tristate's SGS Unit 3 in 2006. This unit has reduced TEP's expenses by \$4.2 million because of: (1) shared facilities between the companies; (2) reductions in property tax expenses; and (3) shared operations, maintenance and overhead costs.

Supply Chain Management

The Company implemented a supply chain sourcing effort in 2009 that continues to reduce costs for gasoline, equipment, poles, wires, transformers and hydrogen today. TEP also changed an internal policy regarding the acquisition of transportation equipment to take advantage of the market downturn. These efforts resulted in a total savings of \$1.4 million for 2009.

Interest Related Savings

TEP took advantage of declining market interest rates and refinanced \$95 million of bonds in 2009; this saved \$1.9 million in annual interest expenses with additional savings for years to come. TEP also received a refund of interest expense from the Internal Revenue Service from prior tax years of \$800,000.

Technology Services

TEP saved \$1.2 million in 2009 by continuing to improve its technology services. The Company saved \$700,000 due to a hardware optimization, and an additional \$300,000 by increasing the use of electronic customer bills and automated bill pay. Automating outbound calls saved \$100,000 by replacing the need for contract employees, and through implementation of the virtual hold program in our Call Center, TEP saved \$100,000 in long distance call charges.

Discretionary One-Time Savings

TEP was able to minimize travel and training expenses in 2009 to achieve a savings of \$1.1 million compared to budget.

Administrative Support Savings

Numerous initiatives were undertaken within administrative areas to achieve a total savings of \$1.3 million. Examples of those initiatives include: (1) eliminating printing the annual report; (2) increased door-tagging collection activity; (3) revising the customer bankruptcy process which reduced legal fees and write-off costs; and (4) process/equipment changes within mail services.

Exhibit A

Category	Area	Initiative	Explanation of Initiative/Process Change	Estimated Savings (in millions)
Market Opportunities				
Market Opportunities	Short-Term Interest	Debt Refinancing	\$95M Refinanced in 2009 resulting in savings of annual interest expense	\$1.9
One-Time Savings				
One-Time Savings	Management and Employee Compensation	Hiring Restrictions	Hiring restriction in place all year requiring Sr. VP approval for any new hires	\$4.9
One-Time Savings	Discretionary Expenses	Training & Travel	Economic conditions forced reductions in many areas; this amount represents the dollars unspent (given up) by departments company-wide for 2009.	\$1.1
One-Time Savings	Generation Plant	Schedule change	Sundt 2 overhaul schedule change	\$1.2
One-Time Savings	Interest Expense Refunds	Interest Expense Refunds	Received a refund of interest expense from prior tax years. Paid an outside contractor 15% of the settlement costs. Estimated savings is net of this expense.	\$0.8
One-Time Savings	Supply Chain Management	Equipment Purchases (Capital)	Change in policy of acquiring some used equipment at low mileages. Due to low mileage, equipment was placed on the same life cycle as a new piece of equipment.	\$0.3
Permanent/Ongoing Savings				
Permanent/Ongoing Savings	Administrative Support Areas	Annual Report Elimination	Eliminated printing the annual report.	\$0.1
Permanent/Ongoing Savings	Administrative Support Areas	Door Tagging Process	Reduction in cut-for-nonpayment service calls through increased door-tagging collection activity.	\$0.4
Permanent/Ongoing Savings	Reduced Payroll Overhead	Changes in employee benefits related to pension expense	Eliminated pension retirement for employees on disability, eliminated lump sum distribution death benefit, and eliminated the Rule of 85 for employees hired as of June 1, 2009.	\$0.6
Permanent/Ongoing Savings	Generation Plant Synergies	SGS 3 synergies	The addition of SGS Unit 3 has reduced TEP's expenses by \$4.2M due to: shared facilities between companies; reductions in property taxes; and shared operations, maintenance and overhead costs.	\$4.2
Permanent/Ongoing Savings	Technology Services	Increase use of E-bills and web based customer use in general	The savings for E-bills results from the reduction of paper bills being mailed to customers (old method) and the costs of processing payments from those same customers by a third party (new method).	\$0.3
Permanent/Ongoing Savings	Technology Services	IT Virtualization	Optimize use of hardware. IT Productivity Gains - Server Provisioning (\$23K), Avoided Maintenance (\$36K), Server and Storage Refresh Cost Avoidance (\$336K), Virtual Server Cost Avoidance (\$302K)	\$0.7
Permanent/Ongoing Savings	Technology Services	Virtual Hold and IVR/ACD Implementation	Savings on long-distance calls. Customers calling in on 800 number can leave a number and a customer service representative will return their call rather than have them waiting on hold. Automated outbound calls and eliminated contract employees	\$0.2
Investigate Further	Administrative Support Areas	Mail Services	Savings in mail services as a result of changes in volume in bills and company correspondence, manifesting changes (process of sorting bills) were brought in-house due to new equipment, and meter elimination.	\$0.3
Permanent/Ongoing Savings	Administrative Support Areas	Bankruptcy Processing	Revised process reducing legal fees and write-off losses	\$0.5
Contract Renegotiation				
Contract Renegotiation	Administrative Support Areas	Officer's/Director's Insurance	Insurance premiums were renegotiated for Office/Director coverage.	\$0.2

Category	Area	Initiative	Explanation of Initiative/Process Change	Estimated Savings
Contract Renegotiation	Contractor Wage Concession	Legal Fees	In 2009, the Legal department renegotiated contracts with numerous outside legal counsel and held their hourly rates to the 2008 level. The savings calculated amounts to using an industry average increase of 4.3% in 2009 and applying that savings to the total bills for those firms.	\$0.1
Contract Renegotiation	Supply Chain Management	Savings through Bidding Process (Capital & O&M)	A "Documented Calculated Savings" formula is used by the Procurement & Contracts department to estimate the dollars saved when the competitive bidding process is used to purchase goods and/or services.	\$1.1

TOTAL 2009 SAVINGS

\$18.9